

Message Text

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ORIGIN ARA-20

INFO OCT-01 ISO-00 PM-07 CIAE-00 INR-10 NSAE-00 RSC-01

DODE-00 OMB-01 L-03 MC-02 EB-11 COME-00 TRSE-00 AID-20

IGA-02 /078 R

DRAFTED BY ARA/APU:RCFELDER:JC

APPROVED BY ARA/LA:WGBOWDLER

ARA/APU:FORTIZ

DOD/OSD/ISA:GEN. GWALLACE

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TO AMEMBASSY MONTEVIDEO PRIORITY

C O N F I D E N T I A L STATE 151232

E.O. 11652: GDS

TAGS: MASS, UY

SUBJECT: USAF MIMEX OFFER 213 - A-37 AIRCRAFT

1. FOLLOWING IS TEXT OF OUTGOING USAF MESSAGE TO USCINCSO
PROVIDING UPDATED INFORMATION ON USAF MIMEX OFFER 213
CONCERNING A-37 AIRCRAFT.

QUOTE: 1. REF A REPORTED THE AVAILABILITY OF 17 A-37A
ACFT INDICATING THAT THEIR CONDITION WAS SUCH THEY COULD
NOT PROPERLY BE SOLD "AS IS" SINCE EXTENSIVE MODIFICATION
AND RECONDITIONING WOULD BE REQUIRED TO MAKE THEM SAFE FOR
OPERATION AND SUPPORTABILITY. AT THAT POINT, BASED ON
KNOWLEDGE THEN AVAILABLE, THE BEST ESTIMATE OBTAINABLE
INDICATED A RECONDITIONING COST OF AROUND 260,000 DOLLARS
PER ACFT WHICH WOULD CONVERT THEM TO AN A-37B CONFIGURA-
TION. THE VALUE OF THE ACFT TO BE SO MODIFIED WAS
PLACED AT DOLLARS 101,916 PER ACFT BASED UPON THEIR AGE
AND EXPECTED USEFUL LIFE. FURTHER STUDY OF THE SITUATION
HOWEVER INDICATED THAT THE CONDITION OF THE AIR FRAMES WAS
SUCH THAT TO PUT THEM INTO SHAPE FOR SAFE OPERATION OVER
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A REASONABLE PERIOD OF TIME WAS NOT ECONOMICALLY POSSIBLE

AND THE ONLY REASONABLE PROCEDURE WOULD BE TO BUY NEW BASIC AIR FRAMES AND INSTALL ON THEM OVERHAULED ACCESSORIES AND EQUIPMENT TAKEN FROM THE OLD AIR FRAMES, THUS ELIMINATING ENTIRELY PROBLEMS OF AIR

FRAMES WEAR OUT, CORROSION, ETC., WHICH WERE NOT ECONOMICALLY CORRECTABLE. TO DO THIS WAS FOUND TO COST ON A ROUGH ESTIMATE BASIS APPROXIMATELY 400,000 DOLLARS PER ACFT VERSUS THE ORIGINAL ESTIMATE OF 260,000 DOLLARS TO MODIFY THE OLD ACFT. THE CONCLUSION THAT THE OLD AIR FRAMES COULD NOT BE EFFECTIVELY USED OR ECONOMICALLY MODIFIED OR REPAIRED CHANGED THEIR VALUE COMPLETELY FROM ONE ESTABLISHED ON A BASIS OF DEPRECIATION TO A VALUE BASED UPON RECOVERY FROM THEM OF USEABLE COMPONENTS WHICH COULD BE INSTALLED ON NEW ACFT. ON THIS BASIS, IT WAS DETERMINED THAT A FAIR VALUE WOULD BE 5 PER CENT OF THE ORIGINAL ACQUISITION COST OR 17,572 DOLLARS PER ACFT WHICH ADDED TO THE ROUGHLY ESTIMATED 400,000 DOLLARS COST OF A NEW AIR FRAME WITH USED COMPONENTS, MAKES A COST OF 417,572 DOLLARS TO WHICH, OF COURSE, ADMINISTRATIVE CHARGES AND TRANSPORTATION COSTS WOULD HAVE TO BE ADDED

FOR FMS CASES. IT SHOULD BE UNDERSTOOD THAT A REASONABLE ACCURATE COST (THE 400,000 DOLLARS BEING A VERY ROUGH ESTIMATE) CAN ONLY BE PRODUCED IF THE ACTUAL CONVERSION IS ENGINEERED IN DETAIL AND THE SPECIFIC ELEMENTS ARE

THEN COSTED. WITHOUT A PROSPECTIVE SALE ON A FIRM BASIS, THE GOVERNMENT COULD NOT PROPERLY UNDERTAKE SUCH A PROJECT. THEREFORE, THE ONLY REASONABLE BASIS IS A SALE BASED ON A ROUGH ESTIMATE WITH A RECOGNITION THAT BY USING THE RECONDITIONED COMPONENTS THE COST IS CERTAIN TO BE SUBSTANTIALLY LOWER THAN THE COST OF A WHOLE NEW AIRPLANE CURRENTLY PRICED AT BETWEEN 670,000 DOLLARS AND 700,000 DOLLARS: IF A POTENTIAL BUYER IS INTERESTED WE WILL UNDERTAKE DETAILED ENGINEERING REQUIRED FOR MORE ACCURATE COSTING BUT DO NOT BELIEVE WE SHOULD DO SO WITHOUT AN UNDERSTANDING SUPPORTED BY AN ACCEPTED LETTER OF OFFER THAT IF THE EXPECTED PRICE BASED ON SUCH DETAILED COSTING IS IN THE 400 THOUSAND DOLLAR TO 450 THOUSAND

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DOLLAR RANGE THE SALE WILL BE CONSUMMATED. IF THE PRICE IS EXPECTED TO EXCEED THAT RANGE THE PURCHASER MAY CANCEL WITHOUT PENALTY, EXCEPT FOR CONTRACTOR EFFORTS EXPENDED. IT IS EXPECTED THAT PREPARATION OF SUCH A DETAILED COST ESTIMATE WILL REQUIRE ABOUT 60 DAYS.

2.

ALTHOUGH NONE OF THE COUNTRIES THUS FAR INTERESTED HAVE ASKED THE QUESTION - SPARE ENGINES COULD BE MADE

AVAILABLE FROM NEW PRODUCTION. COST OF THE ENGINES
ARE 108,415 DOLLARS EACH WITH A PROCUREMENT LEAD
TIME OF 18 MONTHS.

, IN ADDITION THE TIME FRAME FOR DELIVERY OF THE FIRST
6ECONDITIONED A-37B FROM PRODUCTION WOULD BE 18-24 MONTHS
AFTER FUNDING APPROVAL AND PROGRAM GO-AHEAD IS AUTHORIZED.
NUMBER OF ACFT AVAILABLE IS REDUCED TO SIXTEEN. HOWEVER,
AS OF 9 JUL EIGHT OF THE SIXTEEN ACFT (SEE PARA 3 ABOVE)
ARE ON HOLD FOR FMS TO URUGUAY AND WILL NOT BE RELEASED
UNLESS THE OFFER IS NOT ACCEPTED. UNQUOTE.

2. USAF MESSAGE REPRESENTS SERIOUS EFFORT TO MEET CONCERN
EXPRESSED BY EMBASSY ABOUT GOU REACTION TO UNFORESEEN
INCREASES IN PRICE OF AIRCRAFT. AT SAME TIME USAF HAS
UNDER FURTHER REVIEW QUESTION OF COST OF ASSOCIATED
TRAINING PACKAGE.

3. EMBASSY MAY DRAW ON FOREGOING AS APPROPRIATE TO BRING
GOU UP TO DATE ON SITUATION.

4. SEPTTEL RE FMS CREDIT FOLLOWS. KISSINGER

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: MILITARY ASSISTANCE, SAFETY, COSTS, AIRCRAFT SALES, AIRCRAFT MAINTENANCE, AIRCRAFT COMPONENTS
Control Number: n/a
Copy: SINGLE
Draft Date: 12 JUL 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: martinml
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974STATE151232
Document Source: CORE
Document Unique ID: 00
Drafter: RCFELDER:JC
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D740187-0555
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19740752/aaaabsq.tel
Line Count: 137
Locator: TEXT ON-LINE, ON MICROFILM
Office: ORIGIN ARA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: martinml
Review Comment: n/a
Review Content Flags:
Review Date: 23 SEP 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <23 SEP 2002 by kelleyw0>; APPROVED <19 FEB 2003 by martinml>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: USAF MIMEX OFFER 213 - A-37 AIRCRAFT
TAGS: MASS, UY
To: MONTEVIDEO
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005